Edited by
Alesssandro Carretta, Massimo Sargiacomo

Doing Banking in Italy:
Governance, Risk, Accounting and Auditing issues

Mc Graw Hill Education

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Contents

Section I – The Framework

Foreword

Banks have a critical position in the development of economies due to their major role in running the financial system. The financial crisis was considered to a large extent attributable to excessive risk-taking by banks. Of particular concern was the perceived failure by boards to exercise sufficient risk oversight and establish appropriately compliance and control functions. This led to a stronger European frame of regulation & supervision as well as to a focus on internal governance and risk management. In addition to this, improving culture, and risk culture in particular, in the banking and financial services industry is nowadays an imperative, in order to lessen frequent misconducts of banks and protect them from reputational risk, so creating significant value for their stakeholders and for the whole economy. In a related manner, it was recently emphasized by the Basel Committee on Banking Supervision that the recent financial crisis not only revealed weaknesses in risk management, control and governance processes at banks, but also highlighted the need to improve the quality of external audits. Importantly, the external auditors of banks can play an important role in contributing to the financial stability of the whole banking system. Accordingly, in the near future, more than before, there will be the need to stimulate the effectiveness of external auditing of banks, and the relevant better qualification and training of external auditors, as well as a widespread knowledge of banking accounting system, financial statements, and international accounting standards.

The experience of banking legislation shows that after each crisis, regulatory reforms were implemented to address the gaps found in the regulations or practices of supervision. After the recent crisis, too, a season of reform started in Europe on the basis of the analysis carried out on the factors that didn't prevent the contagion of instability to financial markets. The developments of such a deep crisis and weaknesses shown by the financial system are essential to understand the reform of European banking supervision, which is certainly the greatest ever made. Chapter 1 is therefore aimed at describing and commenting on the status of the process of establishing the Banking Union, with a focus on the complex gears of the Single Supervisory Mechanism (SSM) and on the central role of the European Central Bank (ECB). In this context, the ECB is not only the responsible authority but also the engine of the supervisory mechanism and the bridge between micro-supervision and financial stability. The ECB activity can also influence the same rules regarding European supervision. In any case, in a very short time the SSM was consolidated and worked incisively. The future performance of the Banking Union (and thus the smooth functioning of the European banking system) depends on the balance that the supervisory mechanism and the resolution mechanism will gradually find, in the dilemma between complementary and potential conflict. New rules and new practices of supervision will increasingly represent the frame of reference for European banks, and this scheme will not only cover the governance of banks but also the key elements of the corporate strategy and the daily activities. Ultimately, understanding the new supervision will also be for the Italian banks - both large and small - a necessary basis for doing business.

The effectiveness of corporate governance plays a central role for the investors' protection, the reliability of financial reporting, the quality of strategic planning and monitoring. It affects business growth and economic performance, lowering the cost of capital and encouraging firms to use resources more efficiently. For the banking system, corporate governance issues (Chapter 2) are therefore considered a decisive element of sound and prudent banking management, as important as capital adequacy. Corporate governance is also affected by the type of bank, and banks of different size, legal status, ownership, function have different business models, capital allocation and risk taking policies, thereby requiring different corporate governance mechanisms. Bank governance structures and processes evolved over time often reaching even higher standards than those generally applied to listed companies. The European Union directly intervened with CRD IV and CRR in the composition and functioning of banks' boards, in order to ensure that they become effective monitors of management and, more generally, effectively perform their steering role. New rules imposed higher responsibilities, increased and diversified duties and strong commitment to bank directors, as well as more transparent and rational nomination processes. Enforcement and sanctions are becoming more incisive and aimed at influencing individuals and institutions' risk-taking behaviour as well as their reputation. Because of these interventions, bank boards can be considered a benchmark, at least on paper. Substance over form will be achieved however only if all the stakeholders, and mainly institutional investors and the market itself, reach a full maturity in their monitoring function over the governance quality.

As far as the legal framework of the corporate governance of banks is concerned, the starting point is the question on the need for a special body of law regulating the governance of banks instead of simply applying general corporate law. The main issue concerns the role, if any, bad corporate governance of banks had in the crisis of 2008 and how regulators responded. Chapter 3 illustrates the banks' corporate governance as it is today and the role and responsibilities of corporate bodies in the new legal framework.

Bank failures and widespread losses over the past decades clearly show the difficulties of assessing all the risks that arise from corporate strategies and providing effective control processes and tools to prevent and manage the risk-return trade-off. As shown in

Chapter 4, risk management and internal control are not objectives in themselves, they are not unrelated to achieving business goals, nor represent an obstacle. They should always be considered when setting and achieving organizational objectives and creating, enhancing, and protecting stakeholder value. Risk management focuses on identifying threats and opportunities, while internal control helps counter threats and take advantage of opportunities. This system of internal governance is a fundamental tool for the board of directors as well as for both top and middle management, since it helps the bank to "keep on course" and achieve strategic and operational goals. Due to the shortcomings in risk identification and in information flows identified in the crisis period, the head of the risk management function (Chief Risk Officer, CRO) is now required to play a more strategic role, and is to be actively involved at an early stage in elaborating an institution's risk strategy and in all material risk management decisions. The real risk manager or risk owner is in fact the person who takes the decision and thus the risk, in other words the line manager. The control function is carried out by the risk specialist who describes and quantifies the risk, helping management to take good decisions. The risk management process must be integrated with all levels of the bank by way of common language and culture. Risk report forms have to be comprehensible and lead different levels and departments of the bank to assess risk correctly. Besides, an efficient and continuous coordination between different departments and control and supervision offices must be in place.

Reputational risk (Chapter 5) is very important in banks, as their activity is based on credibility and trust by their stakeholders. It is a multidimensional, speculative, secondary risk, and is often described by financial risk managers as the most difficult risk to manage. Financial regulators recognize that reputational risk is not easily measurable, but they expect industry to further develop techniques to manage all aspects of it by means of appropriate policies and processes. The reputational risk management covers the set of processes adopted by financial companies to identify, assess and treat reputational risk, and is essentially concerned with protecting a bank from potential threats to its reputation and minimizing the effects of primary risks. It consists of the identification, assessment, and prioritization of the risk, followed by the application of resources to minimize, monitor, and control the probability and/or the impact of primary events or to maximize the realization of opportunities.

Chapter 6 covers the compliance world. It starts from the evolution of the compliance function, which highlighted the growing importance of the concepts of culture and behaviour within the bank's organization - both in view of the guidelines and approaches issued internationally and within Italy and the legislative scope of compliance, as redesigned by Italian legislation on the internal control system. The definition of compliance risk follows, marking out the relevant boundaries with the other risks of the bank, and the use of risk assessment techniques and the risk-based approach presented, confirming the central role played by compliance in the risk management system of banks and financial companies. Finally, the chapter goes through the compliance plan definition process and discusses the importance of preparing it according to a risk-based approach that enables a focus of the compliance activities on the areas most exposed to the compliance risk.

The interest for culture in banking grew after the financial crisis and the more recent misconduct scandals. There is obviously a cultural problem under the decisions and behaviours in banking world that led to the crisis. Corporate culture is the missing link to understand how organizations act. Culture "holds together" the company: it is the result of shared values, basic underlying assumptions and business experiences, driving behaviours and strategy itself. Risk culture - which is investigated in Chapter 7 - could be seen as a sub-culture with a central role in financial institutions. The risk culture "depends" primarily on the national culture. In addition, the regulation has an impact on culture and the supervisors' different approaches influence in different ways the risk taking of banks. The interaction between governance, culture and performance is increasingly a main issue in the banking arena. Board must understand the risk culture of their organization in conjunction with their business model and not take it for granted. Accounting values affect accounting systems and therefore cultural factors directly influence the development of accounting and financial reporting systems at a country and industry level. The aims of the regulation are to create a stable banking union and take care of the weakness in corporate governance. This brings to a further specification of cultural requirements for banking.

Chapter 8 investigates the content and the structure of the Italian banks' ''Financial Statements", according to the International Accounting Standards (IAS/IFRS) and the Regulatory and legal acts issued by the Bank of Italy, which adopted the IAS/IFRSs rules by issuing the Circular n. 262/05 (amended on 22nd December 2014). The section unveils how the structure and the content of banks' Financial Statements mirror the requirements of IAS 1 'Presentation of Financial Statements'. Complying also with the requirements stipulated by the above mentioned circular, the banks' Financial Statements must be composed by six mandatory documents: Balance Sheet, Income Statement, Statement of Comprehensive Income, Cash Flow Statement, Statement of Changes in Shareholders' Equity and Notes to Financial Statements. Therein, it is unveiled how, having such a structure, the Financial Statements strengthen their role as essential information tools both for stakeholders and for the supervisory activity deployed by the Bank of Italy. Importantly, the chapter also outlines the main topics of the IAS/IFRSs that are used by banks in preparing Financial Statements - i.e. IAS 32, IAS 39, IFRS 7, IFRS 9 and IFRS 13 - at the same time emphasizing that the mentioned Standards are the most controversial ones, more than being difficult to interpret and to apply in the banking context.

Chapter 9 explores the complex activities of external auditing in a specific area of the Italian banking world, that is, the Italian Saving Banks (SBs). A preliminary portrayal of the main features of the SBs is provided, illustrating both the governance relations with the Foundations of Banking Origin, and a basic organizational structure, as well as the main tasks and activities of Internal Audit, Risk Management and Compliance Committee/Office. The analysis on the Board of Statutory Audit's general duties revealed that the Bank of Italy wants External Auditors to ascertain the effectiveness of all the structures and functions involved in the control systems, at the same time addressing controls transversally throughout the entire business organizations. This working scenario is described to be very complicated and risky, considering both the extant paucity of laws and bylaws - as well as banking/finance peculiar legislation - addressed to specifically list the duties and tasks of the Board of Statutory Auditors in Italian Banks, and the possibility that External Auditors might be retrospectively considered guilty of lacks of controls, omissions, or inaction by the Bank of Italy. Examples of yearly controls deployed by the Boards of Statutory Auditors are thus depicted, and drawing on the evidence gathered from 88% of the total SBs affiliated to ACRI (Italian Association between Savings Banks and FBOs), the frame, principles and essential content of the auditors' reports on the annual financial statements are outlined.

In Chapter10 external auditing is focused on another main area of Italian Banking systems, that is, the Italian cooperative banks (CBs). Acting in a system where internal auditing is partly replaced by the Local Federation, the Auditing Committee is said to play a primary role in the supervision of the company's compliance with the laws and the bylaws, principles of good management, adequate organisational, managerial and accounting systems. In a related manner, the Audit Committee monitors the completeness, adequacy and operations of the internal auditing system (if any), and supervises and prevents the bank's crises by monitoring the quality of loans granted to the bank's customers, controlling over suspected money laundering transactions, and preventing conflicts of interest. After having described the nature and economic relevance of CBs, this section provides a comprehensive analysis of the external auditing role played by the Audit Committee, at the same time explaining its offsite supervisory role and its specific relations with ICAAP (Internal Capital Adequacy Assessment Process) and SREP (Supervisory Review and Evaluation Process). The final act in the Audit Committee's supervisory process – reporting - is then outlined, paying particular attention to the frame and content of the final report addressed to the shareholders on the yearly financial statements.

The last section (Chapter 11) illuminates the audit activity in listed banks in the Italian scenario, starting from an overview of their auditors. Considering the civil law context characterizing the Italian environment, the regulations regarding auditing of listed banks is then investigated. In this regard, the Legislative Decree n. 39/2010 implementing the Directive 2006/43/EC on statutory audits, and the recent adoption of ISA with some interpretation/application notes localizing the standards in respect of Italian laws and regulations (the so-called ISA Italy) is thoroughly considered. The auditing activity of banks is also analysed in its different moments considering the peculiarity of banks.

Milan, 10th September 2015

Alessandro Carretta Massimo Sargiacomo

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1

Regulation and Supervision in the financial system: is the Banking Union in action?

Luigi Donato

The experience of banking legislation shows that after any crisis, whether systemic or sectorial, regulatory reforms have been implemented to address the gaps found in the regulations or practices of supervision. After the recent crisis, too, a season of reform started in Europe on the basis of the analysis carried out on the factors that didn't prevent the contagion of instability to financial markets. The developments of such a deep crisis and the weaknesses shown by the financial system are essential to understand the reform of European banking supervision, which is certainly the greatest ever made. Therefore, this study is aimed at describing and commenting on the status of the process of establishing the Banking Union (BU) with a focus on the complex gears of the Single Supervisory Mechanism (SSM) and on the central role of the European Central Bank (ECB). From this perspective we'll try to answer the question if the BU is in action and how. The underlying objective of the work is still to define the lines of operation of European supervision, as the new rules and the new practices of supervision will increasingly represent the reference frame for European banks, and this scheme will not only cover the governance of banks but also the key elements of the corporate strategy and the daily activities. Ultimately, understanding the new supervision will be a necessary basis for doing business for the Italian banks, large or small…

Learning Objectives

- The structural and contingent causes that led to the financial crisis, thus giving impetus to the construction of the Banking Union.
- Two specific regulatory failures of the past: the separation of micro-prudential supervision from macro-prudential supervision and the belief that corporate law was sufficient to ensure sound and prudent management.
- The start-up of the Single Supervisory Mechanism.

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2

Corporate governance: why are banks so special?

Paola Schwizer

Banks have a critical position in the development of economies due to their major role in running the financial system. A shock to one bank can be quickly propagated to others through direct connections, thus generating systemic risk. A bank's failure to follow good practices in corporate governance and the lack of effective governance are among the most important internal factors which may endanger the solvency of a bank. Corporate governance is also affected by the type of bank, and banks of different size, legal status, ownership, function have different business models, capital allocation and risk taking policies, thereby requiring different corporate governance mechanisms.

The financial crisis has been considered to a large extent attributable to excessive risk-taking by banks. Of particular concern was the perceived failure by boards to exercise sufficient risk oversight and establish appropriately strong risk management functions. For this reason, prudential regulation on corporate governance seeks to influence risk-taking in regulated entities. The European Union has directly intervened with CRD IV and CRR in the composition and functioning of banks' boards, in order to ensure that banks' boards become effective monitors of management and, more generally, effectively perform their steering role.

Learning Objectives

In this chapter we will discuss:

- why banks are a special kind of financial intermediary;
- what corporate governance is and why it is relevant for banks;
- what regulatory provisions affect bank corporate governance.

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3

Legal framework of banking governance and board's responsibilities

Alessandra Stabilini

This chapter deals with the legal framework of the corporate governance of banks and the related responsibilities of the board of directors. We will start by asking ourselves what creates the need for a special body of law regulating the governance of banks and prevents us from simply applying general corporate law. Then, we will try to understand what role, if any, bad corporate governance of banks had in the global financial crisis of 2008, and we will describe how regulators responded. This will lead us to the illustration of banks' corporate governance as it is today, and of the role and responsibilities of corporate bodies in the new legal framework. At the end of the chapter we will cast a few doubts on the effectiveness of the answers provided so far.

Learning objectives

In this Chapter we will discuss of:

- The legal framework of the corporate governance of banks
- Banking governance and the financial crisis: what was wrong?
- The response of banking regulators and the new legal framework
- Core concepts of banking governance and corporate bodies' duties in Italy
- The other not-so-silent player: the Banking Authority. Powers and sanctions
- Directors' liability
- Recovery and resolution mechanisms and the bail-in principle
- Conclusion: a few thoughts on the consequences of regulation

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4

Internal controls: tools and processes

Paola Schwizer

Bank failures and widespread losses over the past decades show clearly the difficulties of assessing all the risks that arise from corporate strategies and providing effective control processes and tools to prevent and manage the risk-return trade-off. Financial regulators contribute to the effective planning and operating of internal control and risk management systems by introducing principles and mandatory rules which have been completely revised since the crisis and following the European Banking Union as a fundamental driver of sound and prudent management.

According to COSO and ERM's worldwide standards, regulators established a "three-lines-of-defence" framework, based on specialized control functions and activities – line controls, risk management and compliance, internal auditing – and on several organizational principles and mechanisms aimed at risk prevention, assuring monitoring and management, given the firm strategic goals and risk appetite. Due to the shortcomings in risk identification and in information flows identified in the crisis period, the head of the risk management function (Chief Risk Officer, CRO) is now required to play a more strategic role, and is to be actively involved at an early stage in elaborating an institution's risk strategy and in all material risk management decisions.

Learning Objectives

In this chapter we will discuss:

- what an internal control system is and why it is an important tool to manage business risks
- why internal control systems in banking firms failed during crisis times and the regulatory response
- the main features of an internal control system in banking firms

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5
Reputational Risk

Gaia Soana

Reputational risk is very important in banks, as their activity is based on credibility and trust by their stakeholders. It is a multidimensional, speculative, secondary risk, and is often described by financial risk managers as the most difficult risk to manage. Financial regulators recognize that reputational risk is not easily measurable, but they expect industry to further develop techniques to manage all aspects of it by means of appropriate policies and processes. The reputational risk management covers the set of processes adopted by financial companies to identify, assess and treat reputational risk, and is essentially concerned with protecting a bank from potential threats to its reputation and minimising the effects of primary risks. It consists of the identification, assessment, and prioritization of the risk, followed by the application of resources to minimize, monitor, and control the probability and/or the impact of primary events or to maximize the realization of opportunities.

Learning Objectives

In this chapter we will discuss:

- Definition and features of reputational risk;
- The regulatory approach to reputational risk;
- The reputational risk management process: identification, assessment and treatment.

5.1 Reputational risk: the main features

Reputational risk is very important in banks, as their activity is based on trust and credibility. A good reputation contributes strongly to the survival of banks over time by improving their competitiveness and maintaining a stable and sustainable development.

The definition of reputational risk is the first step in evaluating its management in the banking sector. To date, literature produced several definitions.

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6
Compliance risk

Ferdinando Parente

After having examined the evolution of the compliance function - starting from the approaches and guidelines given by international standard setters and through the legislative changes made on the Italian scene - this chapter focuses specifically on the definition of the compliance risk and its management.
The application of risk assessment techniques, the method to assess compliance risk and the contents of the compliance plan will be presented in particular.

Learning objectives

In this chapter we will discuss:
- evolution of the compliance function
- definition of compliance risk
- compliance risk assessment
- methods used to assess compliance risk
- compliance risk indicators
- compliance plan

6.1 The evolution of compliance: overview

"*Weaknesses in risk culture are often considered a root cause of the global financial crisis, headline risk and compliance events*"[1].

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[1] FSB, *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture. A framework for Assessing Risk Culture*, 7th April 2014. In particular, "*A financial institution's risk culture plays an important role in influencing the actions and decisions taken by individuals within the institution and in shaping the institution's attitude toward its stakeholders, including its supervisors. A sound risk culture consistently supports appropriate risk awareness, behaviours and judgements about risk-taking within a strong risk*

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7

Risk culture in financial institutions, regulators and supervisors

Alessandro Carretta and Nicola Bianchi

Corporate culture is the missing link to understand how organizations act. Culture "holds together" the company: it is the result of shared values, basic underlying assumptions and business experiences, driving behaviours and strategy itself. Risk culture could be seen as a subculture with a central role in financial institutions. The risk culture "depends" primarily on the national culture. In addition, the regulation has an impact on culture and different supervisor's approaches influence in different ways the risk taking of banks. The organization's behaviour is part and expression of the risk culture. The interaction between governance, culture and performance is increasingly a main issue in the banking arena. Boards must understand the risk culture of their organization in conjunction with their business model and not take it for granted. Accounting values affect accounting systems and therefore cultural factors directly influence the development of accounting and financial reporting systems at a country and industry level. The aims of the regulation are to create a stable banking union and take care of the weakness in corporate governance. This brings to a further specification of cultural requirement for banking. Disclosing such information regulators will offer banks an incentive to address the problem of a poor risk culture and provide valuable information to stakeholders.

Learning Objectives

In this chapter we will discuss:

- Definition and features of risk culture in banking
- Relations between governance, risk management and risk culture
- The regulatory approach to risk culture

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8

The Financial Statements in the Italian Banking System

Guido Paolucci

This chapter analyses the content and the structure of the Italian banks' Financial Statements. In the Italian Banking Sector, a bank compiles its Financial Statements according to the International Accounting Standards (IAS/IFRSs) and the Regulatory and legal acts issued by the Bank of Italy. In particular, Italian banks' Financial Statements are prepared in compliance with Legislative Decree n. 38 of 28th February 2005, which provided the compulsory adoption of the IAS/IFRSs. The Bank of Italy adopted the rules of IAS/IFRSs by issuing the Circular n. 262/05 (amended on 22nd December 2014), according to which the structure and the content of banks' Financial Statements reflect the requirements of IAS 1 *Presentation of Financial Statements*. In the mentioned "Circular" it is stated that the banks' Financial Statements must be composed of six mandatory documents: Balance Sheet, Income Statement, Statement of Comprehensive Income, Cash Flow Statement, Statement of Changes in Shareholders' Equity and Notes to the Financial Statements. In this way, the Financial Statements strengthen their role as essential information tools for stakeholders and for the supervisory activity made by the Bank of Italy.

This chapter also outlines the main topics of the IAS/IFRSs that are used by banks in preparing Financial Statements, i.e. IAS 32, IAS 39, IFRS 7, IFRS 9 and IFRS 13. These Standards are, of course, the most controversial and difficult to interpret and apply. In the banking context, the Accounting Standards concerning financial instruments are absolutely relevant and involve several considerations. Regarding the financial instruments, the most significant issues are those introduced by IFRS 9 that brings many relevant challenges to banks, whose activity is characterized by complicated transactions in financial instruments, is related to various types of compound financial instruments and generates loans to various portfolios of clients with different credit risk.

Learning objectives

In this chapter we will consider:

- The Legislative Framework for Financial Reporting in Italian Banking Sector;
- The impact of IAS/IFRS on the Italian banks' Financial Statements;

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9
External Auditing, Governance & Control in Italian Saving Banks[1]

Massimo Sargiacomo and Adalberto Rangone

Saving banks played a pivotal role to support Italian economy and populations.
The Basel Committee on Banking Supervision recently underlined that "*the recent financial crisis*" ... "*highlighted the need to improve the quality of external audits of banks* ".

External auditing in Italian savings banks is very complex and sophisticated, and it is impossible to operate it without having a clear knowledge of the main interconnections with the governance, organization and internal control features and issues, as the existing doctrines related to banking supervision provide that the board of statutory auditors has "*the responsibility to monitor the functionality of the overall system of internal controls*".

The Bank of Italy also provided that external auditors must "*ascertain the effectiveness of all the structures and functions involved in the control systems*" at the same time addressing controls "*transversally throughout the entire business organizations*". Such a complicated scenario becomes even more risky if we consider, from the one hand, the general paucity of laws and bylaws - as well as banking/finance peculiar legislation - addressed to highlight the specific duties and tasks of the board of statutory auditors in Italian Banks, and from the other hand the possibilities that Auditors across the years will be considered guilty of lacks of controls, omissions, or inaction, thus being charged of severe monetary sanctions by the Bank of Italy.

By conducting an empirical analysis on the broad majority of the SBs affiliated to ACRI, we provide a general map of duties and tasks of the board of external auditors, at the same time illustrating some examples of controls to be deployed, as well as the main structure and content of the yearly report to financial statements.

[1] This chapter is the result of a joint effort by the authors who share the formulation. However, the writing of the specific sections must be divided as follows: Massimo Sargiacomo (corresponding author): paragraphs 9.1, 9.7, 9.8, 9.9; Adalberto Rangone : paragraphs 9.2, 9.3,9.4, 9.5, 9.6.

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10
External Auditing in Italian Cooperative Banks[1]

Valerio Antonelli and Raffaele D'Alessio

Cooperative banks are an important area of the Italian banking world.
CBs' auditing is very complex, and includes internal auditing (partly replaced by the Local Federation), auditing firms, auditing committees, as well as banking supervision by the Bank of Italy (onsite supervision).
Within such supervisory system, the Audit Committee has a primary role in the supervision of the bank's compliance with laws and bylaws, principles of good management, as well as adequate organisational, managerial and accounting system. In addition, the Audit Committee monitors the completeness, adequacy and operation of the internal auditing system.
Moreover, the Audit Committee supervises and prevents the bank's crises, by monitoring the quality of loans granted to the bank's customers, considers mechanisms to prevent conflicts of interest, and monitors control over suspected money-laundering transactions. With its powers and the information, the Audit Committee receives, it does not manage risks but coordinates the functions in charge of supervising risk ratings.
Finally, the Audit Committee of a CB is involved in supervision of ICAAP and SREP.

Learning objectives

In this section, we will learn how to:

- Distinguish cooperative banks from other types of Italian banks.
- Understand how cooperative banks' auditing systems are organised.
- List the cooperative banks' external auditing functions.
- Find connections between banking supervision and cooperative banks' external auditing.

[1] This chapter is the result of a joint effort by the authors who share the formulation. However, the writing of the specific sections must be divided as follows: Valerio Antonelli (corresponding author): paragraphs 10.1, 10.2, 10.3; Raffaele D'Alessio: paragraphs 10.4, 10.5, 10.6, 10.7.

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11

External auditing in Italian banks listed on the stock market

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This chapter explores the auditing activity in listed banks in the Italian scenario. A short introduction referred to the Italian listed banks and an overview of their auditors open the chapter. Considering the civil law context characterizing the Italian environment, the regulations regarding the auditing of listed banks are explored. In this regard, the Legislative Decree 39/2010 implementing the Directive 2006/43/EC on statutory audits and the recent adoption of ISA with some interpretation/application notes localizing the standards in respect of Italian law and regulation (the so-called ISA Italy) are considered. The auditing activity of banks is also analysed in its different moments considering the peculiarity of banks.

Keywords

In this Chapter, we will deal with:

- Italian listed banks;
- International Standard on Auditing (ISA);
- Internal Control System;
- Auditing procedures.

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